

論 説

Federal Budgeting under the Budget Control Act of 2011: Focusing on the Relationship between Micro-budgeting and Macro-budgeting: Part 1^{*}

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Introduction

There can be no doubt that current federal budgeting has been dysfunctional, and the dysfunction has been caused by polarized partisan conflicts. Recent budgeting reform proposals, including the one incorporated into the Budget Control Act of 2011 (BCA), are the result of the desperation for effective political decision-making with Washington. Conserva-

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tives, relying on the theory of “starve the beast”, have tried to deprive the president and the Congress of their discretion of budgetary power, by introducing forceful budgetary tools. These include enforcing statutory debt limits, supporting a constitutional amendment to require a balanced budget, and setting spending limits and applying sequestration. These proposals have not only been asserted by conservatives. Many moderates or liberals, described by White [2013] as “centrist budget hawks”, also have sympathized and support-¹⁾ed the use of automatically enforcement mechanisms.

However, the more tightened fiscal norms have become, as supported by both conservative and liberal fiscal hawks, the less functioning ordinary budgeting has become. The budgetary process is more improvisational, and as the result the current budget is far less fiscally sustainable over the long-term. How should we think of the gap between the ideal of fiscal responsibility and what current fiscal policy has produced? In order to consider and fix these issues, it might be useful to approach to them through the following two perspectives.

The first approach examines the relationship between budgeting rules and “political will.” As I said, recent proposals on budgeting reform have been based on the recognition of political failures. For those who hold this view, which is accepted by most political scientists, the concept of “political will” looks so unpopular. Contrary to their view, in traditional budgeting theory political decision-making by political actors is superior to a reliance on budgeting by automatic rules (Meyers [2014]). As Jim Nussle, former Chairman of the House Budget Committee, said, budgeting is just the tool, and what’s the matter is the human as politician who uses that tool (U. S. House [2011]: 5-6). Although we should not attribute all these current problems to “political will,” we also have to remember the limits of the budgeting rules. In other words, we need to support the approach that views better decision-making through deliberative action to be superior to an excessive dependence on budgeting rules. Budgetary reform should not remove discretionary action and politics from the budgetary process.

The second perspective is the theoretical distinction between micro-budgeting and macro-budgeting. Micro-budgeting means the goal to achieve the optimal allocation of budgetary resources to governmental agencies or functions. Key [1940] defines “the basic budgeting problem” is that “on what basis shall it be decided to allocate x dollars to activity A instead of activity B.” As he said, the logic of micro-budgeting is essential of budgeting, and it precedes macro-budgeting historically and theoretically. Contrary to it, macro-budgeting means the goal of attaining long-term fiscal sustainability, referring to aggregates of spending and revenue, or budget balance. That is to say, we have two goals in budgeting: Micro-budgeting to allocate government resource and macro-budgeting to implement fiscal norm.

Historically, macro-budgeting as a rule has emerged in both theory and practice begin-

ning with the enactment of the Congressional Budget and Impoundment Control Act of 1974 (CBA)²⁾. With greater concern for controlling climbing budget deficits, the legislators have invented and developed the various macro-budgeting tools using them to restrain the traditional micro-budgeting practice. Theorists in budgeting also have focused on the role of macro-budgeting, and discussed its relationship with micro-budgeting (LeLoup [1988], Schick [1987]).

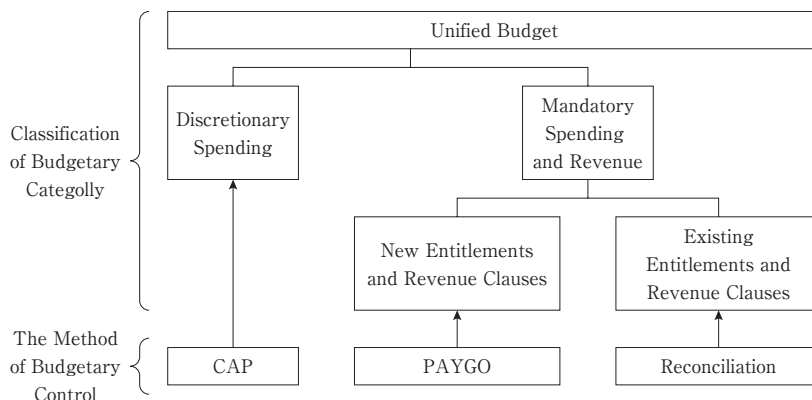
In this paper, I explore the characteristics of federal budgeting under the BCA, focusing on the above two perspectives. First, I look at the historical development of the micro-macro relationship in budgeting since the CBA: the fiscal norms found in the Balanced Budget and Emergency Deficit Control Act of 1985, better known as Gramm-Rudman-Hollings (GRH), and the Budget Enforcement Act of 1990 (BEA). Second, I examine the two major tools devised into budgeting under the BCA; the use of the statutory debt limit, and the CAP and sequestration of discretionary spending. Third, I consider the effects of the tools on the traditional appropriation process, or the main process of micro-budgeting in the U.S. federal budget, and on the fiscal sustainability, the goal of macro-budgeting. Based upon these examinations, I will show the view of the problems to be solved around the current budgeting under BCA and the better way of budgeting reform.

1. Two Types of Macro-Budgeting: the GRH and the BEA

1-1 From the GRH to the BEA

In a hearing held by the House Budget Committee soon after the enactment of the BCA, Philip Joyce sorted out the congressional historical approaches to deficit reduction as exemplified by two types of legislation: the GRH approach and the BEA approach (U.S. House [2011]: 16-17). The GRH enacted in law in 1985 set the deficit reduction target, reducing it by 36 billion dollar in each fiscal year from FY 1987 to FY 1991, with the goal of balancing the budget in FY 1991. If Congress could not bring appropriations within the spending target, automatic spending cuts called sequestration would be triggered forcibly under the GRH. However, the GRH did not work well. Confronted with the threat of sequestration, Congress managed to avoid triggering sequestration through the use of various gimmicks. Some program were excluded from the target, other program accounts were transferred into the next fiscal year. When Congress recognized that it could not attain the target even by using gimmicks, it extended the target into the future. Finally, Congress terminated the GRH without attaining the balanced budget that the GRH aimed to achieve.

After failing to reduce the deficit, the GRH was replaced by the Budget Enforcement Act (BEA), which was inserted in the Omnibus Budget Reconciliation Act of 1990, a huge bipartisan deficit reduction package. As showed in Figure 1, the budgetary control under

Figure 1: Summary of Budgetary Control in BEA

the BEA settled the separate enforcement mechanisms between discretionary spending and mandatory spending, including revenue, instead of the deficit reduction target under the GRH.

First, under the BEA, the spending ceiling, called a CAP, used to control discretionary spending. Discretionary spending refers to the program expenditures appropriated in the twelve appropriation bills fund the federal government's agencies every fiscal year. As compared to the deficit reduction targets set by the GRH, the CAP under the BEA was determined by bipartisan agreement between Congress and the president, and the total amount of the CAP was fine-tuned through the economic forecasts that Congressional Budget Office (CBO) and Office of Management and Budget (OMB) released. In other words, the CAP in the BEA took account of economic cyclical change, contrary to the target of the GRH, which was mechanical and did not consider cyclical factors.

Second, the new budgetary control tool called Pay As You Go (PAYGO) was applied to mandatory spending and revenue. Mandatory spending, also called entitlements, refers to the uncontrollable program expenditures, such as funding for Social Security retirement and Medicare. PAYGO under the BEA was the rule that new programs or revision with mandatory spending increases or revenue decreases must be offset by spending decreases or revenue increases from other programs. PAYGO aimed to restrain new entitlement programs and tax cuts.

1-2 Distinction of the GRH Approach and the BEA Approach

While both of the GRH and the BEA are the macro-budgetary tools in order to reduce the deficit, Joyce accurately summarize the difference of the both approach as the following. He said that "it (the BEA approach) focused on the policy actions first and then used the budget process to attempt to enforce compliance with those actions. That is, to try to keep the Congress from undoing the decisions that had previously been made."³⁾ Contrary to it, there was no policy agreement, but just the enforcement rule in the GRH approach.

Table 1: The Comparison of the Fiscal Rules in GRH, BEA, and BCA

	GRH	BEA	BCA
Beforehand Agreement on Deficit Reduction in Program Based	No	Yes	No
The Target of Deficit Reduction	Absolute Amount of Deficit	Ex Post Facto Control on Spending and Revenue	Absolute Amount of CAP in Discretionary Spending
The Distinction between Cyclical and Structural Deficit	No	Yes	No

When we try to apply the characteristic by Joyce to the BCA, we can find that the deficit reduction scheme settled in the BCA is more similar to the GRH approach than the BEA's, because budget makers have been deprived of their political discretion by the strict macro-budgeting rules under the BCA (Refer to Table 1). The deficit reduction scheme under the BCA is composed of two methods: statutory debt limit and the CAP with sequestration. I will consider the characteristics of them in the following section.

2. The Macro-Budgeting Methods in the BCA

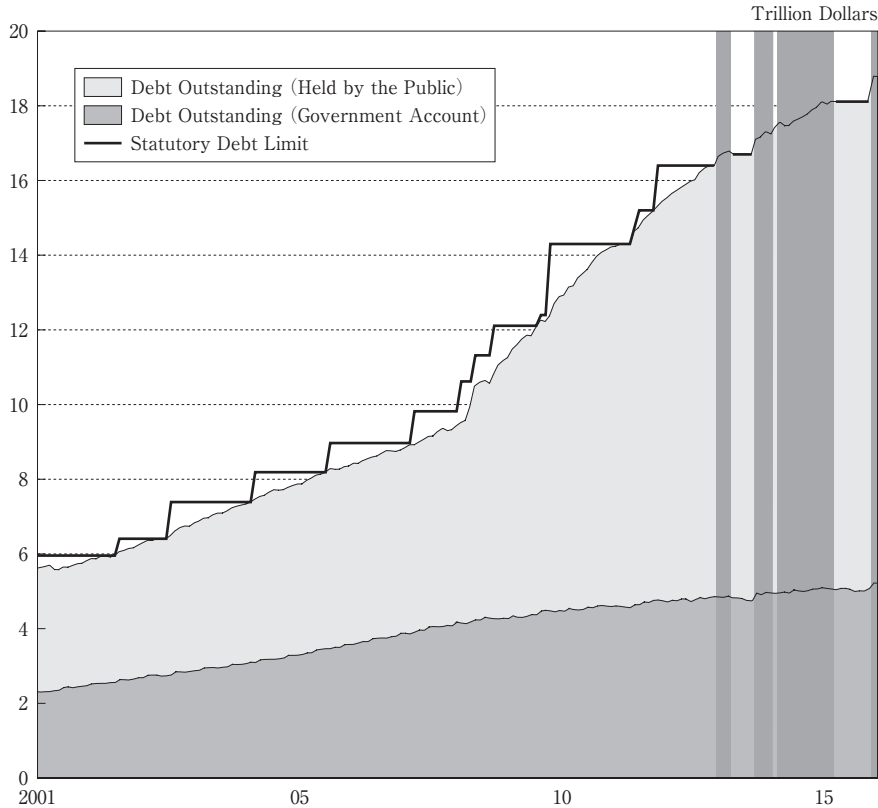
2-1 Statutory Debt Limit

The statutory debt limit is a law that limits the total amount of federal debt that can be incurred by the federal government—including the debt held by the public and the federal government itself. The Department of the Treasury cannot issue the Treasury bond greater than the statutory debt limit. If the debt outstanding level was approached to the legal debt limit and the Treasury could not issue additional Treasury bonds, the federal government would not only be in shut-down through the shortage of cash, but it would also go to default. As a result, the government's default would tremendously damage the world's economy through the resulting free-fall in the value of the Treasury bond. Congress, therefore, has almost always passed the legislation needed to raise the statutory debt limit unconditionally and de-facto automatically.

Making the BCA and the Debt Limit

After the mid-term election in 2010, the Republican Party (GOP) that retook the majority in House of Representatives used the statutory debt limit as a hostage to force Obama and the congressional Democrats to sit down at the negotiation table to address the huge deficit and to consider spending reductions. At that time, the federal debt level approached the debt limit of 14.3 trillion dollars, and the Congress and the president had to raise it

Figure 2: The Statutory Debt Limit and Federal Debt Outstanding



*The Period painted in grey means the suspension term of the statutory debt limit.

Source: U. S. Department of Treasury, Bureau of the Public Debt, *Monthly Statement of the Public Debt*, various issues: Jan. 2001-Dec. 2015.

urgently (Figure 2). John Boehner, Speaker of House, declared the principle that the amount the debt limit was raised must be equal to the total amount of deficit reduction. This principle was named “the Boehner Rule.”

The linkage of the debt limit with deficit reduction turned the budget process into the exhausting and unreconciled repetition of negotiation. The repetitive and multi-level bipartisan negotiations, from the Biden Commission to the higher-level conference between Boehner and President Obama, all resulted in failure, because of polarized politics: the GOP stuck to entitlement cuts and refused to accept any tax increases, while Obama and the congressional Democrats refused to concessions on protecting entitlements but they repeatedly demanded tax increases. After all options collapsed, a jerry-built and patch-worked package was introduced and passed as the BCA. The agreement came just one day before the default dead line Treasury Secretary Geithner had declared several months ago (Woodward [2012]. Also refer to Table 2).

The deficit reduction scheme inserted into the BCA resulted in poorer outcomes than that the participants on the negotiation had expected. The size of the deficit reduction that

was to be made cutting discretionary spending was based on the tentative agreement reached during the early negotiations held by the Biden Commission. The rest of the reduction was to be determined by a Super Committee. However, the Super Committee abandoned efforts to produce an agreement that would produce the additional spending cuts and revenue increases need to reach an agreement. The Super Committee's failure meant that the discretionary spending would alone bear the burden of deficit reduction. In these ways, the linkage between the size of the government's debt and the size of budget reduction created the deficit reduction scheme nobody had expected and led them to a state of political confusion.

The Debt Limit Politics in the Aftermath of the BCA

The brinkmanship politics that surrounded the debt limit was not confined to the making of the BCA. The political battle surrounding the debt limit continues to be replaced in the debates on the government's budgetary process.

In the end of 2012, just after Obama's reelection, the outstanding of federal debt again approached the statutory debt limit. To cope with it, the Congress and the president managed to pass the No Budget No Pay Act of 2013 on Feb. 2013. However, the law has changed the way the government approaches the debt limit issue. Instead of raising the statutory debt limit, the law suspended its enforcement until May 19, 2013. During the suspension, the Treasury Department was permitted to issue the Treasury bond unconditionally, and the total amount of debt on the end of the suspension term became the new debt limit, if Congress and the president would not set the new debt limit during the suspension (Austin [2015]: 9-11). By this change in the way of dealing with the debt limit, Congress has transferred its authority to set the debt limit to the Treasury. The change means that budget makers failed to agree on raising the debt limit at all.

After the enactment of the No Budget No Pay Act, the following cycle about the debt limit has become the standard form: First, the suspension term ends without any new legislation to raise the statutory debt limit. Second, the Treasury Secretary declares the debt outstanding at that time as the new debt limit, and simultaneously, Treasury enters into the extraordinary measures to coping with the shortage of government fund. Third, Treasury Secretary reports the deadline by which its extraordinary measures ends. Fourth, the Congress and the president pass a law that determines the new suspension term until the deadline in order to avoid default.

The Congress and the president have settled three times about the suspension of the debt limit, including the No Budget No Pay Act (refer to Figure 2). Now, we are on the third suspension period that will expire in May 2017, just after the new president and the new congressional members will take into the office. In these way, the time bomb of the debt limit to avoid government default has been incorporated into the periodical budget

Figure 3 (1): CAP in Discretionary Spending under the BCA (Defense)

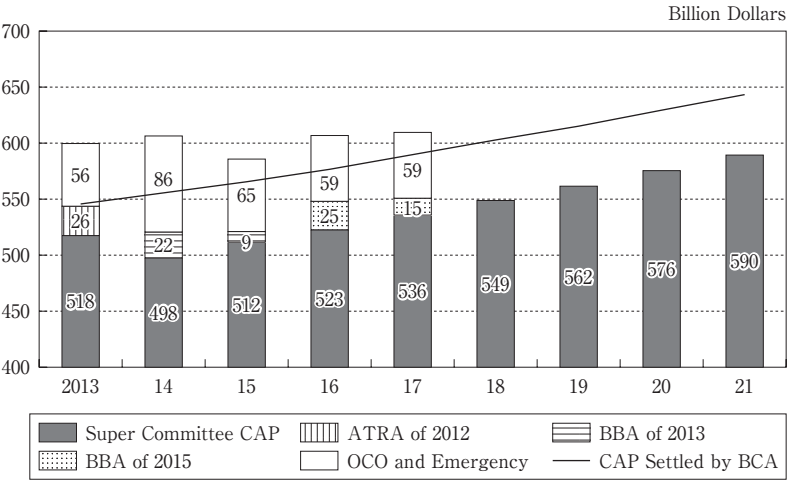
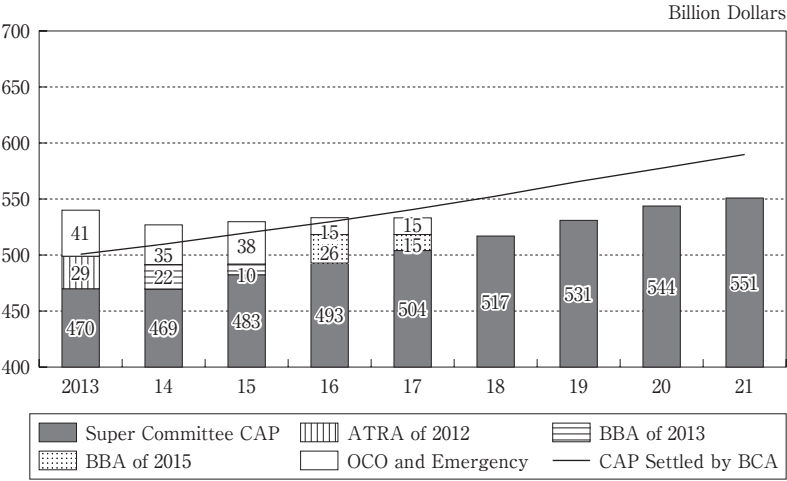


Figure 3 (2): CAP in Discretionary Spending under the BCA (Non-Defense)



Source: U. S. Congress, House, Committee on Budget [2011] *Concurrent Resolution on the Budget: Fiscal Year 2012*, Report 112-58, Apr. 11, pp. 33-35.
CRS [2014] *The Budget Control Act and Trends in Discretionary Spending*, Apr. 2, RL34424, pp. 15-16 .
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process. The suspension or raising the debt limit has become must-pass legislation.

2-2 CAP and Sequestration

CAP in the BCA

The BCA set the spending limit on discretionary spending, the CAP, from FY 2013 to FY2021 (the line in Figure 3). As the Super Committee failed to make the extra deficit

reduction package, an additional CAP named the Super Committee CAP was imposed on discretionary spending (the gray bar in Figure 3). The CAP, including the Super Committee CAP, was imposed separately on defense and non-defense discretionary spending. If Congress failed to make appropriation within the CAP, the sequestration process would be triggered. In this case, all discretionary programs would be cut across the board.

The scheme of the CAP was created by the BEA of 1990. However, the CAP in the BCA is utterly deferent from the one in BEA. First, the original CAP in the BEA was based upon the prior agreement of how to attain the deficit reduction goal on each program level. By comparison, the CAP in the BCA had no plans on how to reach the target, especially if the Super Committee CAP did so. In other words, while the CAP in the BEA was the rule for Congress and the president to act in compliance with the budget agreement between them, the activation of the CAP in the BCA was the result of their failure to reach an agreement. The CAP in the BCA, therefore, was a device created to weigh on budget makers who lacked any plan to reduce the deficit.

Second, the CAP in the BEA distinguished between cyclical deficits and structural ones. It was applied only to structural deficits, as the amount of the spending limit was fine-tuned through the economic estimates by OMB and CBO. By contrast, the CAP in the BCA was the absolute number, without any considerations of economic changes and any flexibility.

The Threat of Sequestration

Sequestration, rooted in the GRH, was another enforcement tool that nobody involved in making the budget desired to be triggered. Sequestration was inserted in the BCA so that the extra deficit reduction package by the Super Committee would have been successful into a law. According to Woodward [2013], Jack Lew, the Director of OMB, and Robert Nabors, the Director of legislative affairs of the White House, talked about the aim of sequester, when they were managing to make the final version of the BCA. "It (sequestration) is so ridiculous," they said, "that no one ever wants it to happen. It was the bomb that no one wanted to drop. It actually would be an action-forcing event."⁴⁾

Both Democratic and Republican leaders jumped on their idea because they thought that the tremendous threat of sequestration would make the members of the Super Committee act on the hard task of deficit reduction, lead them to make the bill, and get the legislators enact it into the law without any amendment. However, this tremendous threat that nobody had wanted was realized because the Super Committee failed to reach any agreement.

2-3 Characteristics of the BCA: Brinkmanship and Autonomy Oriented Budgeting

As we saw the previous chapter, Joyce accurately pointed out the difference between the GRH approach and the BEA's to deficit reduction in the context of the relationship be-

tween the fiscal norm and political discretion. He discussed that setting target without simultaneously reaching consensus was likely to be an empty promise, and that the enforcement rule should prioritize political decision-making and should be used to enforce compliance with it (U.S. House [2011]: 17–18).

However, when evaluating the BCA scheme, Joyce's assertion remained in generalities. When it came time to discuss the specific reforms included in the BCA, he focused on the comprehensiveness of the target. He said that the problem of the GRH was that many parts of the budget were excluded from enforcement, and this was also true with the BCA (U.S. House [2011]: 18). Based on his point out, the defect of the BCA would be caused by narrow target scope, and the right way to reform would be to widen the coverage of enforcement rules, such as the CAP or sequestration, into revenue clauses or entitlements. However, the cause of the problems does not lie with how to use the rules in a technical way, but with the rules themselves.

The essential problem of the fiscal norm under the BCA, such as the linking the debt limit to deficit reduction, the CAP, or sequestration, results in the outcome where budget-makers forcefully turn to brinkmanship politics, and that these tools incentivize them to rely on autonomic procedures to make difficult choices. How have these rules changed the nature of budgeting? In the next chapter, I will examine the impact of the fiscal norm under the BCA on the budget process in both micro-and macro-budgeting.

Note

- 1) For example, moderate or liberal think tanks, such as the Committee for Responsible Federal Budget, the Bipartisan Policy Center, Peterson-Pew Commission, have released a variety of reports that has proposed the strict budget enforcement procedures for legislators to take responsibility for deficit reduction.
- 2) As James Savage asserted, concern about macro-budgeting has had much longer history since the Foundation, typically it has been expressed as the thought of balanced budget (Savage [1988]: 4). In this paper, however, I use the term of macro-budgeting as institutionalized rules related to deficit reduction. According to this view, it can be say that Congress has established the institution of macro-budgeting since the CBA of 1974.
- 3) In addition, Joyce pointed out another difference between both approaches. That is, while the BEA created separate enforcement regimes between discretionary spending and entitlements, the GRH did not distinguish both (U.S. House [2011]: 17).
- 4) Woodward [2012]: 327. It has been in dispute who invented the idea of sequestration. While Sargent [2013] and Bernstein [2013] have asserted the idea of sequester was rooted from the House GOP, based upon the statement by Speaker Boehner or Paul Ryan, the chairman of the Budget Committee in House, Woodward [2013] has denied their view, revealing the staffs of the White House introduced it first, based on his book, as showed in the paper.

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